# HOUSING MARKET OUTLOOK
## Montréal CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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## Housing Market in 2012-2013[1]

After pulling back in 2011, demand on the Montréal area resale market will rise slightly this year, thanks to the low interest rates and moderate employment growth. MLS® transactions will therefore reach a volume of 42,400 units, for an increase of 5.0 per cent over last year. The supply of existing homes will continue to rise, bringing market conditions increasingly closer to balanced market territory. Activity on the new home market, for its part, will register a decrease. The easing of the resale market will be the main factor limiting demand for new housing. Total housing starts will reach 20,500 units this year, for a drop of 9.8 per cent from 2011.

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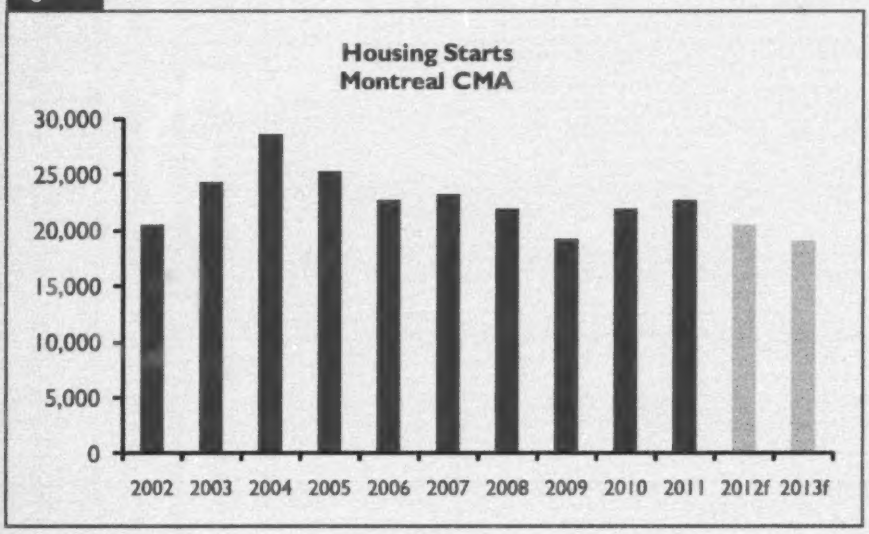


Source: CMHC

[1] The forecasts provided in this document are based on the information available on April 27, 2012.

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In 2013, transactions on the resale market will rise, but more moderately, given the expected modest increase in interest rates and weak employment growth. Sales will reach 43,200 units, or 1.9 per cent more than this year, and the market will become balanced toward the end of next year. As a result, residential construction will continue to slow down in 2013, in all market segments. Overall, housing starts will fall by 6.8 per cent, to 19,100 units.

## Economic Environment in 2012-2013

In Quebec, economic growth will be moderate in 2012 and 2013, much like in 2011. The strength of the Canadian dollar against the U.S. dollar and the economic situation of Quebec's key trading partners will continue to limit export growth. However, despite the economic and financial uncertainty, domestic demand and private investment will stay strong. All in all, GDP will grow by 1.5 per cent in 2012 and by 2.0 per cent in 2013.

Consequently, the economic environment that slowed the Montréal job market last year will prevail again this year. The relative weakness of the finance and manufacturing sectors will limit employment growth to 0.2 per cent this year. A slight recovery is however anticipated for next year (+1.1 per cent). Despite this weak gain in employment in the Montréal census metropolitan area (CMA), the growth in the labour force will push up the unemployment rate to about 9.0 per cent this year and next year.

## Mortgage Rates

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

## Migration

Based on the immigration levels planned by the Government of Quebec, the province should welcome just over 50,000 immigrants in 2012 and 2013. Since Montréal receives the vast majority of the newcomers every year, a significant number of immigrants will come to settle in the region this year and next year. In addition, a large number of non-permanent residents, mostly foreign workers and students[2], will continue to come and live in the metropolitan area. These factors will support demand on the rental market in the short and medium term, since international migrants tend to rent when they first arrive. With this international migration, overall net migration in the metropolitan area will stay at a historically high and stable level, despite the movement of the Montréal labour force to other provinces across Canada and other regions in Quebec. Net migration will be 30,900 in 2012 and 31,900 in 2013.

## Resale Market

After having been volatile in recent years, activity on the resale market will rise slightly in 2012. In fact, with the rebound in economic activity and the mortgage rate hikes that were anticipated (but did not occur) in 2010, some buyers had moved up their home purchases and satisfied their housing needs. This resulted in a pullback in demand in 2011, and the volume of MLS® transactions declined by 4.5 per cent from 2010. Still, in the third quarter of 2011, demand on the resale market embarked on an upward trend. In 2012, the resale market will maintain this momentum. The growth will be due more to the significant increase in the housing stock in recent years, since demand will be relatively stable, given the expected trend in mortgage rates this year. In all, 42,400 sales will be registered in the MLS® system this year, for an increase of 5.0 per cent.

In 2012, the supply of existing homes will continue the upward trend that began in 2011. Active listings will move closer to an average of 27,000 units this year, up by 8.0 per cent

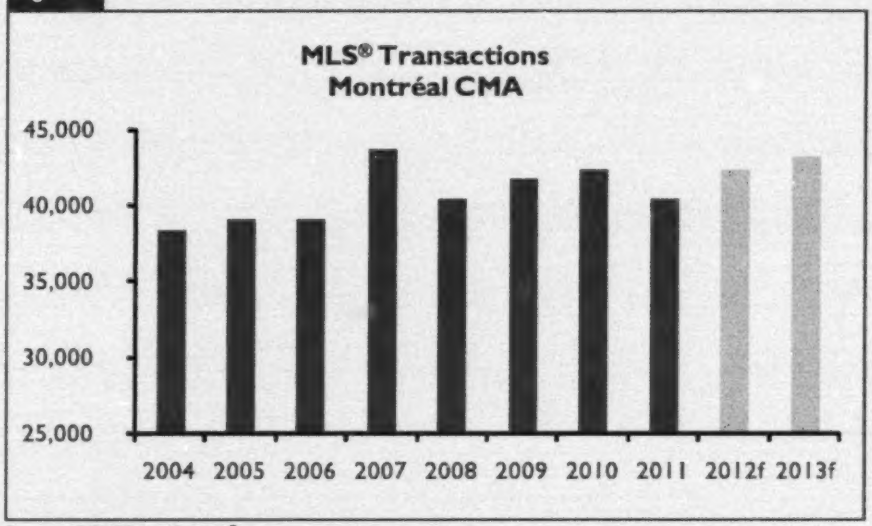
[2] ST-AMOUR, Martine. "Un portrait des résidents temporaires au Québec de 2000 à 2010," in Données sociodémographiques en bref, Institut de la statistique du Québec, Vol. 16, No. 2, February 2012.

over last year. This increase will be essentially attributable to new listings, the growth of which will offset the rise in transactions. The low mortgage rates are prompting a number of households to change homes, which is leading to more properties being put up for sale on the market. As a result, after having favoured sellers for several years, market conditions progressively moved closer to balanced territory in 2011, thanks to this growth in supply. In 2012, supply will slightly outpace demand, which will bring the market closer to balanced market territory, where conditions favour neither sellers nor buyers during negotiations. The upward pressure on prices will ease as choice increases on the market. The growth in prices will therefore be more moderate in 2012 than in 2011. In fact, the average MLS® price will register an increase of 3.5 per cent in 2012, reaching $325,000, compared to a hike of 5.5 per cent in 2011.

In 2013, transactions will rise by 1.9 per cent to 43,200 sales. However, the increase in the volume of transactions will be due more to the growth in the housing stock than to an increase in demand. In fact, demand will be curbed by the modest rise in interest rates, which will still remain at historically low levels, and moderate employment growth. On the supply side, 2013 will be much like 2012, as listings will stay on an upward trend, reaching 28,000 units on average. With the more moderate growth in demand, this increase in supply will cause the market to ease and then become balanced toward the end of 2013. This will further limit the increase in the average price, which will attain $330,000 next year (+1.5 per cent).

In 2012, the increase in sales will extend to all segments of the resale market. Sales of condominiums, the only market segment that posted a gain in transactions in 2011, will maintain a solid pace this year. The rise in active listings will impact all market segments, and the growth will be stronger in the case of condominiums. As a result, this will be the only balanced segment this year.

Figure 2




Source: QFREB by Centris®
Forecast: CMHC

However, the increase in activity on the resale market in 2012 will be primarily attributable to the single-family home segment, where MLS® transactions will start picking up again. In fact, last year, activity in this segment, which accounts for more than half of the sales in the area, was harder hit by the effects of the demand having been moved forward. Consequently, in 2012, sales of single-family homes will register a small increase, reaching a level close to the average for the last few years.

The existing plex market (small rental apartment buildings) was also rather significantly affected by the pullback in demand in 2011. However, limited by relatively small numbers of active listings, plex transactions have been on the decline for the last few years. Sales in this market segment will therefore rise slightly in 2012.

## New Home Market

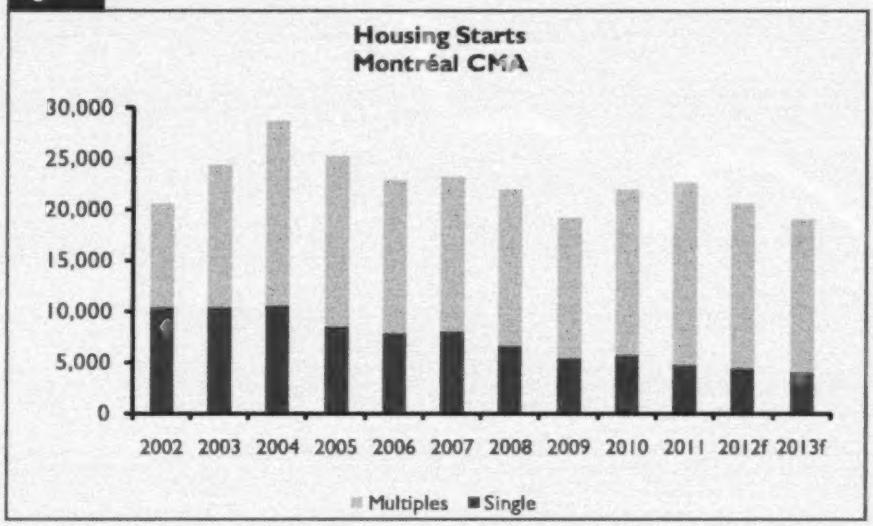
Marked by higher levels of construction in 2010 and 2011, the new home market will register a decrease in activity in 2012. In fact, in 2011, total annual starts in the Montréal CMA increased by 3 per cent and reached 22,719 units. With more choice on the resale market this year, buyers will not be turning to the new home as much to meet their housing needs, which will result in decreases in activity in all market segments. Housing starts will therefore reach 20,500 units in 2012, down by 9.8 per cent from last year.

In line with the downward trend that has been prevailing since 2005, single-detached home construction will decline again this year. With the strong growth in prices in recent years, and the likely changing housing preferences and needs, single-

detached homes are bearing the brunt of the shift in housing demand toward the most affordable options on the market, particularly condominiums. Not only are fewer and fewer single-detached houses being built, but these homes are being built farther and farther away, where land prices are lower. In 2012, single-detached housing starts will reach 4,300 units, for a drop of 7.6 per cent from last year.

In 2011, the positive residential construction result was attributable to the robust activity observed in the multiple-family housing segment, more specifically in the condominium category, which set a new record (12,681 units). This year, multiple-family housing starts will register a decrease. This decline will result more from a slowdown in rental housing construction than a drop in condominium activity. In fact, the seniors' rental housing market is currently in a phase where the vacant units are being absorbed, given the very weak growth in the population segment that represents the target client group for these dwellings. As for the rental market not intended for seniors, rising land prices and construction costs are causing several builders and developers to opt for the construction of condominiums rather than rental housing. Condominium construction is reported to be preferred, according to industry sources, allowing builders and developers to get a greater return on their investment. There will be some new rental housing construction this year, but this activity will be concentrated mainly in the central sectors of the Island of Montréal.

Figure 3




Source: CMHC

Rental housing starts will therefore hit a low point, with fewer than 2,000 new units getting under way in 2012.

In 2012, condominium starts will remain robust, but the level of activity will be slightly lower than last year's volume, as just over 12,000 new condominiums will be started this year. In a context where condominium listings are increasingly significant on the resale market, these strong construction levels are further fuelling the supply of this housing type and, in turn, increasing the choice for buyers. However, demand for condominiums should remain steady as they represent an interesting option for first-time buyers as well as for older buyers (like empty-nester households). This should limit the rise in the inventory (newly completed but unsold units). As a result, condominium construction will stay solid again this year.

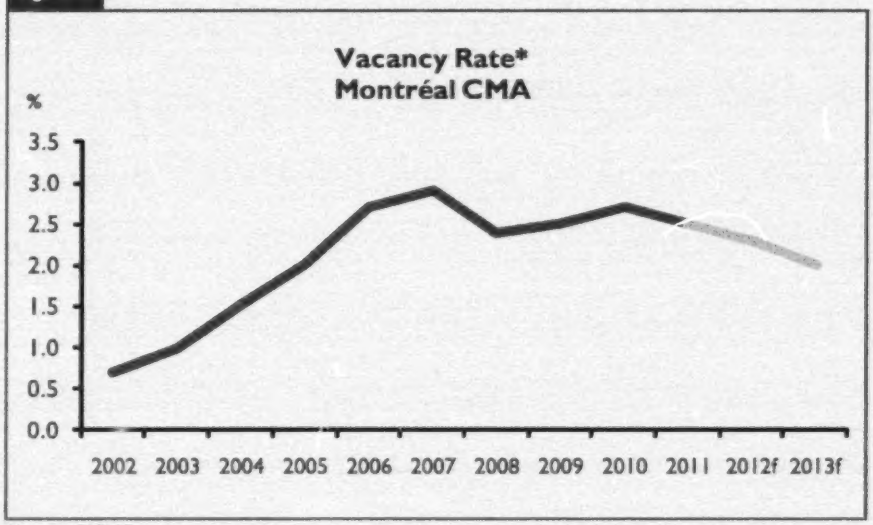
In 2013, with a less tight resale market, activity will subside further on the new home market. Condominium starts will moderate. Even though demand for dwellings of this type will stay strong, thanks, in part, to their multigenerational appeal, the record levels of construction registered in recent years will cause the inventory to rise up to the peak reached in the years from 2006 to 2008. This high level will slow down the rate of absorption and force builders to gradually reduce their production. Single-detached home building will weaken. Not only will buyers have more choice on the existing home market, but they will continue to favour the more affordable options on the market. Overall, housing starts will decline by 6,8 per cent, to 19,100 units.

## Rental Market

The rental housing vacancy rate in the Montréal CMA will decline slightly this year, reaching 2.3 per cent in the fall, compared to 2.5 per cent in October 2011. This relative stability that has lasted since 2006 is attributable to several factors. As has been the case in recent years, some renters will move to homeownership, but their departure will be more than offset by the arrival of newcomers in the area. With the stable supply of new units, these factors will lead to a slight tightening of the market this year.

In 2013, demand for rental housing will grow a little more. The progressive and modest rise in interest rates will result in less favourable borrowing conditions for homebuying. Fewer renters will be heading for the homeowner market, while a significant number of newcomers will be looking for rental dwellings. As a result, conditions on the rental market will tighten next year. This will result in a small decrease in the vacancy rate, which will drop to 2.0 per cent.

Figure 4




Source: CMHC
*Private structures with three or more apartments

| Forecast Summary<br>Montréal CMA<br>Spring 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012f | % chg | 2013f | % chg |
| **Resale Market**[1] | | | | | | | |
| MLS® Sales | 41,753 | 42,299 | 40,370 | 42,400 | 5.0 | 43,200 | 1.9 |
| MLS® Active Listings | 23,442 | 21,334 | 24,718 | 26,700 | 8.0 | 28,000 | 4.9 |
| MLS® Average Price ($) | 274,787 | 297,588 | 314,011 | 325,000 | 3.5 | 330,000 | 1.5 |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 5,446 | 5,789 | 4,653 | 4,300 | -7.6 | 4,000 | -7.0 |
| Multiples | 13,805 | 16,212 | 18,066 | 16,200 | -10.3 | 15,100 | -6.8 |
| Semi-Detached | 1,032 | 1,292 | 1,178 | | n/a | | n/a |
| Row/Townhouse | 973 | 1,160 | 1,055 | | n/a | | n/a |
| Apartments | 11,800 | 13,760 | 15,833 | | n/a | | n/a |
| Starts - Total | 19,251 | 22,001 | 22,719 | 20,500 | -9.8 | 19,100 | -6.8 |
| **Average Price ($):** | | | | | | | |
| Single-Detached | 355,089 | 343,513 | 362,243 | 373,000 | 3.0 | 379,000 | 1.6 |
| New Housing Price Index (% chg.) | 2.4 | 3.1 | 2.9 | 1.7 | - | 1.6 | - |
| **Rental Market**[2] | | | | | | | |
| October Vacancy Rate (%) | 2.5 | 2.7 | 2.5 | 2.3 | - | 2.0 | - |
| Two-bedroom Average Rent (October) ($) | 669 | 700 | 719 | 730 | - | 740 | - |
| **Economic Overview** | | | | | | | |
| Mortgage Rate (1 year) (%) | 4.02 | 3.49 | 3.52 | 3.37 | - | 3.78 | - |
| Mortgage Rate (5 year) (%) | 5.63 | 5.61 | 5.37 | 5.26 | - | 5.37 | - |
| Annual Employment Level | 1,905,400 | 1,954,200 | 1,952,500 | 1,956,200 | 0.2 | 1,977,500 | 1.1 |
| Employment Growth (%) | -0.6 | 2.6 | -0.1 | 0.2 | - | 1.1 | - |
| Unemployment rate (%) | 9.2 | 8.6 | 8.3 | 9.0 | - | 8.9 | - |
| Net Migration | 32,826 | 32,141 | 29,871 | 30,900 | 3.4 | 31,900 | 3.2 |

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

[1] Source: QFREB by Centris®

[2] Privately initiated rental apartment structures of three units and over

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), QFREB by Centris®, CMHC Forecast (2011-2012)

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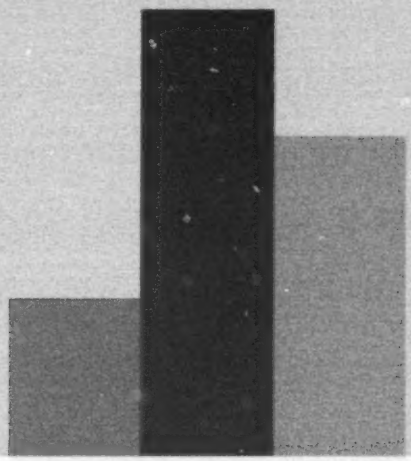

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